

KAPS **ANNUAL REPORT** **1975**

KAPS TRANSPORT LTD.

ANNUAL REPORT

MARCH 31, 1975

DIRECTORS

H. David Kapchinsky	Edmonton, Alberta
Gerhard Kapchinsky	Fort St. John, B.C.
Lorne C. Leitch	Edmonton, Alberta
G. Richard Chater	Toronto, Ontario
James W. McCutcheon	Toronto, Ontario
George H. Montague	Toronto, Ontario
P. J. A. Byrne	Edmonton, Alberta

OFFICERS

Chairman of the Board	H. David Kapchinsky
President	P. J. A. Byrne
Vice-President	Walter H. Horton
Vice-President	Ralph Hayward
Secretary	Alan J. Emsley
Treasurer	Alan J. Emsley

REGISTERED OFFICES

9303 - 51st Avenue, Edmonton, Alberta

EXECUTIVE OFFICES

9303 - 51st Avenue, Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

Royal Trust Company, Edmonton, Vancouver,
Winnipeg and Toronto

STOCK EXCHANGE

Toronto Stock Exchange

BANKERS

Bank of Montreal
Mercantile Bank of Canada

AUDITORS

Thorne Riddell & Co.,
Edmonton, Alberta

ANNUAL MEETING

September 26, 1975 at 9:30 a.m.
Chateau Lacombe, Edmonton, Alberta

FINANCIAL HIGHLIGHTS

	1975*	1974	1973	1972	1971	1970
Total revenue	\$30,818,000	\$25,048,000	\$21,864,000	\$21,927,000	\$16,193,000	\$14,047,000
Net income (loss) (note 1)	\$ (3,577,000)	\$ (2,478,000)	\$ 1,077,000	\$ 1,405,000	\$ 736,000	\$ 1,227,000
Net return (note 2)	(8.2%)	(12.7%)	3.2%	5.4%	4.5%	8.7%
Net income (loss) per common share						
Before extraordinary items	\$ (.98)	\$ (1.24)	27.6c	47.9c	31.9c	60.5c
Extraordinary items	(.42)	.27	14.5c	9.2c		
Net income (loss)	<u>\$ (1.40)</u>	<u>\$ (.97)</u>	<u>42.1c</u>	<u>57.1c</u>	<u>31.9c</u>	<u>60.5c</u>
Cash flow from operations	\$ (784,000)	\$ (1,559,000)	\$ 3,482,000	\$ 3,575,000	\$ 2,689,000	\$ 2,715,000
Per common share (note 2)	\$ (.31)	\$ (.61)	\$ 1.36	\$ 1.45	\$ 1.17	\$ 1.34
Shareholders' equity	\$ 6,457,000	\$ 10,034,000	\$ 12,704,000	\$ 11,845,000	\$ 10,039,000	\$ 7,200,000
Per common share	\$ 2.52	\$ 3.91	\$ 4.96	\$ 4.67	\$ 4.11	\$ 3.33
Working capital (deficiency)	\$ (4,191,000)	\$ 162,000	\$ 1,155,000	\$ 1,645,000	\$ 1,255,000	\$ 1,309,000
Total assets	\$ 35,927,000	\$ 36,233,000	\$ 32,463,000	\$ 28,458,000	\$ 22,068,000	\$ 16,126,000
Shares outstanding (note 3)	2,563,265	2,563,265	2,557,109	2,459,638	2,306,845	2,027,010

Note 1 — Including extraordinary items

Note 2 — Excluding extraordinary items

Note 3 — Weighted average common shares outstanding for the period.

* Nine months.

KAPS TRANSPORT LTD.

and active subsidiary companies

Transportation

Kaps Transport Ltd.

Arctic Shallow Marine Ltd.

Bolsters Transport Ltd.

Kaps Transport, Inc.

Wizard Transport Ltd.

Inland Empire Leasing Corporation

Manufacturing

Kaps Manufacturing Ltd.

Other

R. R. Dales Construction Co. Ltd.

Norcan Parts & Equipment (1965) Ltd.

REPORT TO SHAREHOLDERS

On behalf of the board of directors, I submit a report on the results of your company's operations for the nine month period ending March 31, 1975.

The fiscal year end of the company was changed to March 31st to conform more closely with the seasonal nature of many of the company's operations.

Although we believe that progress has been made in effecting a number of major reforms in management and in establishing a viable operating structure for the company, the company's financial statements for the period set out significant losses that require explanation.

A major portion of the loss recorded during the period is accounted for by the company's subsidiary, R. R. Dales Construction Co. Ltd. This company has been engaged in contracts to provide crushed rock for railway road bed construction.

As indicated in the report on the quarter ended September 30th, 1974, it was the intention of management to phase out the rock crushing operations. In fact, this phasing out has proved to be a more costly and lengthier process than was anticipated. As a result of escalating costs and adverse working conditions it has become impossible economically to continue operations unless higher unit rates can be negotiated with the railway company concerned. Discussions are currently in progress with the client in an attempt to alleviate the company's position and no further commitment of the financial resources of Kaps Transport Ltd. will be made to the subsidiary until we are satisfied that the rates paid by the railway will permit a reasonable return for the work involved in these contracts. The company's present investment in this subsidiary amounting to \$1,095,000 has been written off in the financial statement presented with this report.

The continued expansion of the operations of the company's Alaskan subsidiary has involved the company in further losses, a major portion of which can be identified with the problems of starting up a sizeable transport operation in the unusual economic environment of Alaska today. Shortages of management personnel and the explosive character of the demand for transport services created by the Trans Alaska Pipeline project have caused the costs of setting up this Alaskan operation to be greater than we anticipated. This subsidiary was completely reorganized by management in the early part of 1975 and is now operating profitably and represents a major source of revenues and profit for your company, however, during the nine months under review, the losses of our Alaskan operations amounted to \$732,000.

The third source of the losses reported in the financial statement arises from the write downs taken with respect to certain inventories of equipment and parts which have been maintained for the purpose of resale and not for the support of the operating divisions. The continued depressed level of activity in oil and gas development in western Canada has adversely affected the sales from these inventories over the past two years and these inventories have become increasingly obsolete. The financial statements make provision for such obsolescence and accordingly \$350,000 has been charged against the company's operations in the nine months.

FINANCIAL HIGHLIGHTS FOR NINE MONTHS ENDED MARCH 31ST, 1975 VERSUS TWELVE MONTHS ENDED JUNE 30TH, 1974

1975 revenues amounted to \$30,818,000 versus \$25,048,000 in 1974.

1975 loss before extraordinary items amounted to \$2,514,000 or 98 cents per share versus loss before extraordinary items of \$3,178,000 or \$1.24 per share in 1974.

1975 extraordinary items represented losses of \$1,063,000 or 42 cents per share versus income of \$700,000 or 27 cents per share in 1974.

The following is an analysis of the company's divisional revenues.

	1975	1974
A. Transportation	\$19,630,000	\$16,484,000
B. Manufacturing	2,861,000	4,387,000
C. Other	8,888,000	4,779,000
	31,379,000	25,650,000
Inter-division eliminations	561,000	602,000
	<u>\$30,818,000</u>	<u>\$25,048,000</u>

DIVISIONAL REPORTS

A. TRANSPORTATION

(i) LAND

As reviewed, the general freight haulage operations of the Alaskan subsidiary were unprofitable in the nine months to March 31, 1975, due primarily to increased additional start-up costs and inadequate staff.

In Canada in the areas of "on" and "off" highway transportation, the continuing lack of activity caused low gross profits in the period in review. Early this year management created a special Land Transport Division to ensure that this sector of our business is properly and economically handled and that the company obtains its share of what currently appears to be an improving market.

The "off" highway (oil and gas field equipment haulage) segment of transport both in Canada and Alaska, is quite depressed due to prevailing economic conditions in the exploration of minerals.

(ii) MARINE

The tonnage transported on the Mackenzie River in the 1974 season decreased substantially from 1973. Again due to a reliance on the oil and gas sector of industry, the likelihood of any spectacular increase in 1975 is remote. In fact, until further exploration in the Arctic is commenced, or until a gas pipeline construction project is permitted, marine traffic will continue to be low.

B. MANUFACTURING

The manufacturing operations were profitable for the first time in the nine months to March 31, 1975. The operation now offers a fully integrated steel fabricating service to the petroleum, petro-chemical, environmental and marine industries at this time, and it appears that satisfactory profits can be expected in the future.

C. OTHER

The earthmoving division worked during the nine months on northern Alberta projects with disappointing results. It now appears that the concept and policies were ill-conceived and that the work was undertaken with insufficient planning. The division policies and operations have recently undergone complete re-organization by management, and it is anticipated that future operations will generate adequate returns on the equipment deployed.

GENERAL

The recent history of your company reflects the efforts which were made by earlier management to diversify the company's operations and by present management to eliminate unprofitable activities and develop those which can provide the company with viable profit centers. This process has been both onerous and costly. It is now substantially complete. The assets of the company, however, still remain to a large extent, oriented towards oil and gas exploration and development in western and northern Canada, and it would be unrealistic to assume, that in the present economic environment, those assets can be utilized at an optimum level. The objective of current management is to maximize the capabilities of the company within its known expertise and to develop and expand within those areas. We believe, and our first quarter financial results so indicate, that this policy will succeed in moulding a stable corporate enterprise.

P. J. A. BYRNE, PRESIDENT

AUGUST 29, 1975
EDMONTON, ALBERTA

KAPS TRANSPORT LTD.

(Incorporated under the laws of Alberta)
and subsidiary companies

CONSOLIDATED BALANCE SHEET — MARCH 31, 1975

(with comparative figures at June 30, 1974)

ASSETS	1975	1974
CURRENT ASSETS		
Cash		\$ 178,000
Term deposit	\$ 200,000	701,000
Accounts receivable	6,523,000	5,892,000
Agreements receivable		1,037,000
Inventories (note 3)	3,142,000	3,125,000
Unconsolidated subsidiary for sale		153,000
Prepaid expenses and deposits	144,000	751,000
	<u>10,009,000</u>	<u>11,837,000</u>
INVESTMENTS		
Joint ventures	633,000	595,000
50% Owned companies	232,000	349,000
Other (note 4)	1,000,000	1,000,000
	<u>1,865,000</u>	<u>1,944,000</u>
FIXED ASSETS (note 5)		
Land, buildings and equipment, at cost	30,498,000	26,709,000
Less accumulated depreciation	<u>8,049,000</u>	<u>6,407,000</u>
	<u>22,449,000</u>	<u>20,302,000</u>
INTANGIBLES AND DEFERRED CHARGES		
Excess of cost over fair value at dates of acquiring shares of subsidiary companies	1,191,000	1,600,000
Deferred development costs, less amortization	170,000	328,000
Financing charges	180,000	148,000
Other deferred charges, at cost less amortization	<u>63,000</u>	<u>74,000</u>
	<u>1,604,000</u>	<u>2,150,000</u>
	<u><u>\$35,927,000</u></u>	<u><u>\$36,233,000</u></u>

Approved by the Board

H. D. Kapchinsky, Director

P. J. A. Byrne, Director

LIABILITIES	1975	1974
CURRENT LIABILITIES		
Bank advances, secured by general assignment of book debts (note 6)	\$ 4,557,000	\$ 4,373,000
Accounts payable and accrued liabilities	6,978,000	4,911,000
Income taxes payable	136,000	11,000
Deferred revenue	48,000	106,000
Principal due within one year on long-term debt	2,481,000	2,274,000
	<u>14,200,000</u>	<u>11,675,000</u>
LONG-TERM DEBT (note 7)		
Debentures	9,356,000	10,692,000
Finance contracts	5,532,000	2,592,000
Mortgage payable	22,000	22,000
	<u>14,910,000</u>	<u>13,306,000</u>
Less principal included in current liabilities	2,481,000	2,274,000
	<u>12,429,000</u>	<u>11,032,000</u>
DEFERRED INCOME TAXES (note 8)	2,841,000	3,492,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 9)		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,563,265 Common shares	7,896,000	7,896,000
RETAINED EARNINGS (DEFICIT)	<u>(1,439,000)</u>	<u>2,138,000</u>
	<u>6,457,000</u>	<u>10,034,000</u>
	<u>\$35,927,000</u>	<u>\$36,233,000</u>

LONG-TERM LEASES (note 10)

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

NINE MONTHS ENDED MARCH 31, 1975

(with comparative figures for the year ended June 30, 1974)

	1975		1974	
	Revenue	Gross operating profit (loss)	Revenue	Gross operating profit (loss)
Divisions				
Transportation	\$19,630,000	\$ 942,000	\$16,484,000	\$1,186,000
Manufacturing	2,861,000	637,000	4,387,000	(679,000)
Other	8,888,000	(241,000)	4,779,000	102,000
	31,379,000	1,338,000	25,650,000	609,000
Elimination of inter-division transactions	561,000		602,000	
	<u>\$30,818,000</u>	<u>1,338,000</u>	<u>\$25,048,000</u>	<u>609,000</u>
Administrative expenses		3,151,000		3,571,000
Interest on long-term debt		1,252,000		1,036,000
Minority interest in loss of subsidiary company				(5,000)
		<u>4,403,000</u>		<u>4,602,000</u>
Loss before income taxes and extraordinary items		<u>3,065,000</u>		<u>3,993,000</u>
Income taxes (note 8)				
Current		77,000		(2,000)
Deferred		(628,000)		(813,000)
		<u>(551,000)</u>		<u>(815,000)</u>
Loss before extraordinary items		<u>2,514,000</u>		<u>3,178,000</u>
Extraordinary items				
Writedown to realizable value of subsidiary company		1,095,000		226,000
Recovery of deferred income taxes by recognition of additional losses carried forward		(32,000)		
Gain on sale of subsidiary companies less related income taxes				(926,000)
		<u>1,063,000</u>		<u>(700,000)</u>
LOSS FOR THE PERIOD		<u>\$ 3,577,000</u>		<u>\$ 2,478,000</u>

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF DEFICIT
NINE MONTHS ENDED MARCH 31, 1975

(with comparative figures for the year ended June 30, 1974)

	1975	1974
Retained earnings at beginning of period		
As previously reported	\$ 2,221,000	\$ 4,891,000
Adjustment of prior years' income (note 11)	83,000	83,000
As restated	2,138,000	4,808,000
Loss for the period	3,577,000	2,478,000
	(1,439,000)	2,330,000
Dividends paid		192,000
RETAINED EARNINGS (DEFICIT) AT END OF PERIOD	\$(1,439,000)	\$2,138,000

	1975	1974
Loss per common share, on a weighted average basis		
Loss before extraordinary items	\$.98	\$1.24
Loss for the period	1.40	.97

On a fully diluted basis loss per common share is materially the same as that calculated on a weighted average basis.

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

NINE MONTHS ENDED MARCH 31, 1975

(with comparative figures for the year ended June 30, 1974)

	1975	1974
SOURCE OF FUNDS		
Decrease in investment in joint ventures.....	\$ 1,177,000	\$ 1,146,000
Decrease in investment in 50% owned companies.....	117,000	13,000
Increase in long-term debt.....	1,093,000	4,167,000
Proceeds from sale of subsidiary companies less related current income taxes.....		2,564,000
Working capital deficiency of subsidiary companies sold or for sale.....		795,000
	<u>1,217,000</u>	<u>7,585,000</u>
APPLICATION OF FUNDS		
Loss before extraordinary items.....	2,514,000	3,178,000
Items not involving current funds		
Depreciation and amortization.....	(2,403,000)	(2,406,000)
Deferred income taxes.....	628,000	813,000
Other.....	45,000	(26,000)
	<u>784,000</u>	<u>1,559,000</u>
Investment in 6% preferred shares.....		1,000,000
Additions to fixed assets, net.....	3,503,000	5,583,000
Purchase of subsidiary companies.....	550,000	
Working capital deficiency of subsidiary companies purchased.....	46,000	
Writedown of net current assets of subsidiary company.....	569,000	
Deferred development costs.....	53,000	88,000
Financing charges.....	65,000	148,000
Other deferred charges.....		8,000
Dividends paid.....		192,000
	<u>5,570,000</u>	<u>8,578,000</u>
DECREASE IN WORKING CAPITAL POSITION.....	<u>4,353,000</u>	<u>993,000</u>
WORKING CAPITAL AT BEGINNING OF PERIOD		
As previously reported.....	277,000	1,270,000
Adjustment of prior years' excise taxes (note 11).....	115,000	115,000
	<u>162,000</u>	<u>1,155,000</u>
WORKING CAPITAL (DEFICIENCY)		
AT END OF PERIOD.....	<u><u>\$(4,191,000)</u></u>	<u><u>\$ 162,000</u></u>
Working capital (deficiency) comprised of		
Current assets.....	\$10,009,000	\$11,837,000
Current liabilities.....	<u>14,200,000</u>	<u>11,675,000</u>
	<u><u>\$(4,191,000)</u></u>	<u><u>\$ 162,000</u></u>

KAPS TRANSPORT LTD.
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED MARCH 31, 1975

1. BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES

(a) Basis of consolidation

The consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. In some cases certain companies in the group perform services for other companies. The resulting inter-company revenues and any gross profit therefrom have been eliminated in these consolidated financial statements.

(c) Valuation of inventories

Inventories are valued as follows

- Parts and supplies — at the lower of cost and replacement cost
- Automotive and heavy equipment — at the lower of cost and net realizable value

(d) Joint ventures and 50% owned companies

The investments in joint ventures and 50% owned companies are carried at cost of investment, including advances, plus equity in unremitted earnings since acquisition, which is not in excess of equity in underlying net assets.

The company's equity in net income of joint ventures and 50% owned companies included in revenue on the consolidated statement of income is as follows

	1975	1974
Joint ventures	\$45,000	\$29,000
50% Owned companies	52,000	(31,000)

(e) Depreciation of fixed assets

Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on bases (set out in note 5) calculated to amortize the cost of the assets, less residual value, if any, over the estimated useful life of the assets.

(f) Amortization of deferred charges

Deferred charges are amortized by charges against earnings over the periods of benefit to the companies. In 1975 amortization charged against earnings (including \$171,000 related to hovercraft development costs) amounted to \$255,000 (\$58,000 in 1974).

(g) Income taxes

The companies reflect in earnings income taxes currently payable or recoverable and income taxes deferred by claiming certain expenses, principally depreciation of fixed assets, for income tax purposes in amounts which differ from those recorded in the accounts. The accumulated total of such income tax deferments is reflected in the accompanying balance sheet as "Deferred income taxes".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. EXPENSES

(a) Depreciation

Depreciation deducted in arriving at gross operating profit amounted to \$2,148,000 (\$2,348,000 in 1974).

(b) Remuneration of directors and officers

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to \$165,000 (\$213,000 in 1974).

3. INVENTORIES

Inventories consist of the following

	1975	1974
Parts and supplies	\$2,129,000	\$1,831,000
Automotive and heavy equipment	1,013,000	1,294,000
	<u>\$3,142,000</u>	<u>\$3,125,000</u>

4. OTHER INVESTMENTS

As partial consideration on the sale of a subsidiary in 1974 the company received 1,000,000 6% \$1 par value preferred shares of the purchaser which, under certain conditions, may be converted into common shares. Dividends commence in 1978 and are cumulative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. FIXED ASSETS

	1975		1974	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 278,000		\$ 278,000	\$ 269,000
Buildings	1,356,000	\$ 232,000	1,124,000	1,180,000
Automotive equipment	15,689,000	3,965,000	11,724,000	8,319,000
Portable field equipment	2,502,000	1,023,000	1,479,000	1,940,000
Aircraft	24,000	4,000	20,000	22,000
Marine equipment	7,319,000	1,728,000	5,591,000	5,885,000
Office and shop equipment	793,000	259,000	534,000	522,000
Aggregate equipment	1,096,000	463,000	633,000	1,127,000
Roadways, docks and parking lot	1,221,000	318,000	903,000	990,000
Leasehold improvements	220,000	57,000	163,000	48,000
	<u>\$30,498,000</u>	<u>\$ 8,049,000</u>	<u>\$22,449,000</u>	<u>\$20,302,000</u>

Depreciation bases and rates used by the companies are

On a diminishing balance basis

Buildings

Concrete block	5%
Frame	10%
Office equipment	20%
Roadways	4%

On a straight-line basis

Buildings, steel	5%
Automotive and portable field equipment	10% - 33⅓%
Aircraft	12½%
Marine equipment	6⅔%
Shop equipment	10%
Aggregate equipment	10% - 20%
Docks	20%
Parking lot	10%
Leasehold improvements	equal annual amounts over the life of the lease

6. BANK ADVANCES

Subsequent to March 31, 1975 the company and certain subsidiary companies granted as additional security for bank borrowings floating charge debentures as well as a fixed specific mortgage on certain pieces of automotive equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. LONG-TERM DEBT

	1975	1974
(a) Debentures		
10¼% Debenture — the company and certain subsidiary companies; secured by a first fixed specific mortgage on marine and certain other equipment	\$ 8,701,000	\$10,000,000
At March 31, 1975 the companies were in default under covenants contained in the debenture. It is anticipated that these defaults will be eliminated by an agreement presently being finalized.		
Subsequent to March 31, 1975 the debenture was amended to provide that interest is payable quarterly at 10¾% to December 31, 1975, 11¼% to December 31, 1976 and 12¼% thereafter and principal is payable in quarterly instalments increasing from \$126,000 to \$280,000 until October, 1983 with a final payment of \$1,933,769 in January, 1984.		
Principal and interest are secured by		
(1) a first specific mortgage on fixed assets not otherwise pledged as security,		
(2) a second specific charge on certain assets otherwise pledged,		
(3) assignment of equity in 50% owned companies,		
(4) assignment of the 6% preferred shares, and		
(5) floating charges on all other assets and undertakings of the companies.		
Bank debenture — subsidiary company	655,000	692,000
Payable in monthly instalments of \$5,000 to \$10,000 with a final payment of \$232,000 on February 1, 1980; interest payable monthly at various rates related to the bank's prime lending rate; secured by a general assignment of receivables, a first fixed specific mortgage on land, building and certain equipment and by a first floating charge on all assets.		
	<u>\$ 9,356,000</u>	<u>\$10,692,000</u>
(b) Finance contracts		
Payments due in 1975		\$ 1,156,000
Payments due in 1976	\$ 1,898,000	660,000
Payments due in 1977	1,989,000	691,000
Payments due in 1978	1,426,000	85,000
Payments due in 1979	156,000	
Payments due in 1980	63,000	
	<u>\$ 5,532,000</u>	<u>\$ 2,592,000</u>
(c) Mortgage payable		
9½%, payable \$247 monthly including principal and interest	\$ 22,000	\$ 22,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAXES

The tax effect of loss carryforwards is recognized only to the extent of eliminating cumulative income tax deferments in each company.

Tax loss carryforwards available for application against future years' incomes but not recognized in the accounts total \$3,048,000 at March 31, 1975 (\$2,564,000 at June 30, 1974).

9. CAPITAL STOCK

At March 31, 1975 9,000 common shares were reserved for issue under outstanding share options (at June 30, 1974 21,500 under outstanding share options plus 40,000 under outstanding warrants which expired during the period).

Share options — granted for a five year period, exercisable on completion of previous year's employment to a maximum of 20% on a cumulative basis in each year at \$6.30 per share

Options outstanding at beginning of period	21,500
Less options cancelled,	<u>12,500</u>
	<u>9,000</u>

Subsequent to March 31, 1975 the parent company granted an option to the holder of the 10¼% debenture to purchase 100,000 common shares at \$7.50 per share. This option may be exercised in whole or in part at any time to April 25, 1980.

10. LONG-TERM LEASES

The company rents two buildings, one of which is owned by a director, under long-term "net net" leases which expire August 31, 1977. The annual rentals under these leases total \$31,200. There are options to extend these leases for a further five years at the same annual rentals.

The company rents its office premises, which is partially owned by one of its directors, under a long-term "net net" lease which expires October 31, 1980. The annual rental under this lease is \$36,000. There are two five-year renewal options to extend this lease at annual rentals to be negotiated.

The company leases equipment under a contract with an annual rental of \$219,000. The contract extends to November 1977 with options to renew for a further two years at an annual rental of \$18,000 or to purchase the equipment at fair market value.

11. PRIOR PERIOD ADJUSTMENT

In 1975 the companies were assessed excise taxes on equipment transferred into the United States in prior years. The 1974 comparative figures have been restated to give retroactive effect to the assessment.

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at March 31, 1975 and the consolidated statements of income, deficit and changes in financial position for the nine months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1975 and the results of their operations and the changes in their financial position for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
August 26, 1975

Thorne Riddell & Co.
Chartered Accountants

